



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

FmHA AN No. 859 (1940)

June 16, 1983

SUBJECT: FmHA Loans for New and Expanding  
Dairy Enterprises

TO: State Directors, District Directors and  
County Supervisors

Various questions have been raised, several States have established policy guidelines, and others have requested policy guidance from the National Office concerning FmHA's lending practices with regard to loans for the establishment of new dairy enterprises or the expansion of existing facilities. Dairy production continues to increase and the gap between production and consumption is the largest it has been since the early 1960's. Surplus production is accumulating in Government warehouses at an alarming cost to the taxpayers. FmHA is involved with many dairy farmers who have serious financial problems and are selling their dairy farms voluntarily or by foreclosure sales.

We believe it is most essential that all aspects of FmHA involvement in financing must be very carefully analyzed when processing applications for new or expanded dairy enterprises. The following items, plus others pertinent to your area, should be considered:

I. Prior to making loans to new producers or for new or expanded facilities, FmHA should assess the overall economic stability of the dairy industry in the area and consider the following:

1. Any indication of restrictions that processors may, for any reason, place upon the producers in the area of the proposed loan.
2. The number of farms in the area that have vacant or inoperative dairy facilities due to economic or other conditions.
3. Check very thoroughly sales of comparable farms with dairy facilities in the area to determine the obsolescence factor and the value of the dairy facility to the farm.
4. FmHA must be acutely aware of the danger of overexpansion in certain areas and the adverse affect of overproduction on present FmHA borrowers and other producers.

EXPIRATION DATE: June 30, 1984

FILING INSTRUCTIONS: Preceding  
FmHA Instruction ~~1941-A-Set~~

~~1940-E~~



Farmers Home Administration is an Equal Opportunity Lender.  
Complaints of discrimination should be sent to:  
Secretary of Agriculture, Washington, D.C. 20250

5. Loans for new producers or new or expanded facilities will not be made,

- a. To purchase or lease dairy headquarters facilities without adequate land resources for a proper and realistic feed production balance customary for the area.
- b. Where a realistic cash flow plan does not reflect the borrower can meet operating and fixed expenses and pay required debt payment at the available interest rate.
- c. That exceed the industry production level for the area, management ability of the applicant or the labor available within the family-size farm.
- d. If the applicant does not have an immediate need for the farm income.
- e. Where the existing facility is already an economical unit and is providing an adequate standard of living for the family.
- f. Unless the new start replaces an operation that is discontinuing dairying such as conveying a family operation.
- g. To re-establish operators that have discontinued operating a dairy farm.
- h. If the land and buildings are not suitable for a dairy farm without major expenditures.
- i. To convert from other enterprises to dairying.

We believe it is very important that each application for a dairy enterprise or any other highly specialized enterprise be carefully analyzed considering the above items and other circumstances pertinent to your area. The operator must be fully qualified, the security must be completely adequate, the terms must be appropriate and, most of all, the operator must have a good chance for success.



CHARLES W. SHUMAN  
Administrator

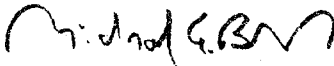
County Supervisors are to ensure that the items shown in the heavily outlined boxes on each of the forms shown in Exhibit B are fully and accurately completed before photocopying each of the forms. These items reflect the mandatory input items for computer entry and will be computer edited for errors and omissions. Consequently, packages containing Form FmHA 410-1 for subsequent applications will reflect entries in the items shown in heavily outlined boxes. If Form FmHA 431-2 is not used because another acceptable plan was used, or because of a cross-reference to the application balance sheet, County Supervisors are to ensure that the items shown in the heavily outlined boxes are completed on Form FmHA 431-2 using equivalent items from the alternative plan. Each separate package of forms should be stapled together before submission. It is not necessary to do any further sorting of the packages by initial or subsequent categories or by type of loan categories. Followup messages for accuracy verification and error corrections will be generated, using formats shown in Exhibit D. Followup messages requiring corrections will be completed and returned within 10 calendar days to the address given above. Information verified as accurate may be disposed of or filed at the discretion of the County Supervisor.

All of the above material for each of the loan closing actions occurring during FY 1983 is to be prepared and submitted within 10 calendar days of the closing. All FY 83 OL, FO, SW and EM loans closed during FY 1983 prior to receipt of this notice are also to be submitted. However, such loan information may be submitted as time permits, but not later than 45 calendar days from the date of this notice.

Should you or any member of your staff have questions or concerns on any of the directions set forth in this AN, please contact one of the following National Office staff members:

Darrow Strain	(OL)	FTS 475-4008
Ed Yaxley	(FO, SW)	FTS 475-4021
Jim Vollmer	(EM)	FTS 382-1642
Anne Plumer	(MISD)	FTS 436-5943

Your cooperation in this important project is appreciated. A sample of a graphic output report that can be prepared from the information supplied is contained in Exhibit E. The financial characteristics and use of funds data gathered with your help will provide valuable information to the Agency. We believe your efforts will enable us to conclusively show the importance and effectiveness of our programs to the Nation's farmers.



CHARLES W. SHUMAN

for Administrator

Enclosures